

4. Consolidated Requests Partial Relief from Sections 54.901 and 54.903 of the Commission's Rules.

As described above, Commission Rule 54.901(a) makes ICLS "available" only "to a rate-of-return carrier."⁶⁴ Consolidated seeks a partial waiver of that eligibility rule in order to qualify for ICLS as a price cap carrier. It seeks only a partial waiver so that the amount of support it receives equals the amount of IAS that it would have received in 2007 if it qualified for IAS for the converted lines in 2007. The measure of partial relief – the amount of IAS it would have received in 2007 – is analogous to the 19 SLCs that carriers were excused from assessing for every T-1 circuit, while still qualifying for ICLS for all 24 channels, in the *NECA USF Waiver Order*, or the *ad hoc* construction requirements created in the *Intek Waiver Order*.

To ensure that Consolidated's ICLS as of July 1, 2008 is calculated in the same manner as any other price cap carrier's IAS funding for 2007, Consolidated also requests partial waiver relief from the remainder of the ICLS reporting and support calculation rules set forth in Sections 54.901 and 54.903 of the Commission's rules.⁶⁵ Without a waiver of those rules, Consolidated's ICLS would continue to be calculated in the same manner it is now, rather than in the same manner as IAS. The IAS rules that govern the calculation of support for price cap carriers should then be applied to Consolidated's ICLS to determine the amount of per line support that would have been appropriate for Consolidated in 2007 if it had been receiving IAS this year for the converted lines. Thus, in granting the partial relief requested, the Commission should require the

⁶⁴ 47 C.F.R. § 54.901(a)

⁶⁵ 47 C.F.R. §§ 54.901-54.903. Consolidated does not seek relief from the certification requirement in 47 C.F.R. § 54.904 applicable to recipients of ICLS. That provision does not affect the calculation of the amount of ICLS funding to be distributed.

Universal Service Administrative Company ("USAC") to calculate Consolidated's ICLS in the same manner as the other price cap carriers' IAS for 2007.⁶⁶

5. Consolidated Requests Partial Relief from Sections 54.802 through 54.806 of the Commission's Rules.

Many provisions of the IAS rules could be read to limit their application to the IAS fund, such as, e.g., Section 54.802(d)(2) (USAC shall "[p]ublish the results of these calculations showing [IAS] Per Line available in each price cap [LEC] study area..."); Section 54.803(a) ("The zones used for determining [IAS] shall be ..."); Section 54.806(a) (USAC, "based on the calculations performed in 54.804 and 54.805, shall calculate the [IAS] for areas served by price cap [LECs] according to the following methodology ...").⁶⁷ These phrases might be interpreted to preclude the application of the IAS rules to the calculation of Consolidated's ICLS funding. In order to ensure that Consolidated receives support calculated in the same manner as IAS, Consolidated requests a waiver of these and similar phrases in Sections 54.802 through 54.806 to the extent that they appear to limit the support being provided or calculated to IAS so that these rules can be applied to cover the ICLS provided to or calculated for Consolidated.⁶⁸

B. The Public Interest Benefits from Consolidated's Conversion to Price Cap Regulation Justify Waiver of These Universal Service Rules.

Because Consolidated cannot feasibly convert its ROR study areas to price cap regulation if it would face unreasonable reductions in universal service funding as a result, it requires partial

⁶⁶ See *NECA USF Waiver Order*, 19 FCC Red at 13606 (requiring ROR carriers to calculate their line counts "in a manner consistent with this order" when filing line count data with NECA and USAC; Commission did not separately waive the line count reporting rules to implement this instruction).

⁶⁷ 47 C.F.R. §§ 54.802(d)(2), 54.803(a), 54.806(a).

⁶⁸ As part of this request, Consolidated does not seek a waiver of Section 54.801(a), which codifies the \$650 million target on total IAS funding. In Section V.C. below, Consolidated requests such a waiver in the alternative.

relief from the universal service rules. This relief will enable Consolidated to generate all of the public benefits resulting from its conversion to price cap regulation and to continue its aggressive network investment program, which is necessary for expanded broadband deployment.

In light of Consolidated's need for continued partial ICLS funding in order to convert its ROR study areas to price cap regulation, partial waiver of the ICLS requirements in Sections 54.901 and 54.903 of the Commission's rules, as well as a partial waiver of the IAS rules in Sections 54.802 through 54.806, "will serve the public interest" due to the efficiency and competitive benefits to be generated by Consolidated's conversion.⁶⁹ Conversely, strict compliance with those rules, thereby cutting off a significant source of high-cost USF support to Consolidated as a price cap carrier and forcing it to reconsider its decision to move to a fully price cap regime, would be "inconsistent with the public interest."⁷⁰

This waiver would result in a "more effective implementation of overall policy."⁷¹ Specifically, the requested partial waiver would enable Consolidated to receive high-cost support equivalent to that provided to price cap carriers under the mechanism established in the *CALLS Order*, alleviate at least some of the burden on the high-cost USF program, and to provide the competitive and consumer benefits of price cap regulation. Accordingly, Consolidated has demonstrated good cause for a partial waiver of the universal service rules in order to continue receiving ICLS funding as a price cap carrier but calculated in the same manner as IAS funding.

⁶⁹ *Northeast Cellular*, 897 F.2d at 1166. Rule 54.902, regarding the calculation of ICLS for transferred exchanges, is not relevant to Consolidated.

⁷⁰ *Id.*

⁷¹ *WAIT Radio*, 418 F.2d at 1159.

C. In the Alternative, Consolidated Requests a Waiver of the IAS Target of \$650 Million.

In the event that the Commission does not grant partial waiver relief enabling Consolidated to continue receiving ICLS funding as a price cap carrier, Consolidated requests, in the alternative, a partial waiver of the \$650 million target in Sections 54.801 and 54.806 of the Commission's rules so that it can receive the same amount of IAS funding it would have received as a price cap carrier for 2007 without affecting other price cap carriers' IAS funding. The good cause showing set forth above for continued ICLS funding justifies the same level of USF support from the IAS fund. Consolidated's conversion to price cap regulation, and the public interest benefits accruing therefrom, depend on continued USF support, whether out of the ICLS fund or IAS fund. Because the level of support would be exactly the same in either case, the total impact on the high-cost program would be the same. Whether the source of funding is ICLS or IAS, Consolidated's total high-cost USF support will be less than it is now, which is another tangible public benefit from the requested relief.

In order to ensure the same public interest balance as the requested waiver of the ICLS rules, Consolidated's alternative USF waiver request is framed to preclude any impact on other recipients of IAS funding. Thus, as part of this alternative request, in addition to a waiver of the \$650 million target in Section 54.801(a) of the rules, Consolidated also requests a waiver of the \$650 million target insofar as it affects the calculation of IAS funding in Section 54.806 of the rules.⁷² As in the case of the requested waiver of the ICLS rules, this alternative request also seeks only partial waiver relief, so that Consolidated receives only the amount of IAS funding

⁷² 47 C.F.R. § 54.806.

going forward that it would have received in 2007 (“2007 Level”) had it been a price cap carrier in 2007.

Accordingly, as an alternative to the partial waiver of the ICLS rules requested above, Consolidated requests partial waiver of the IAS rules to make it possible for it to receive IAS funding at a 2007 Level without affecting other IAS recipients. Such partial waiver “will serve the public interest” due to the public benefits resulting from the conversion to price cap regulation facilitated by such waiver relief.⁷³

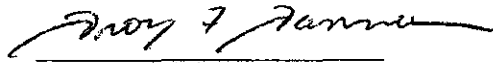
⁷³ *Northeast Cellular*, 897 F.2d at 1166.

VI. CONCLUSION

Conversion of Consolidated's ROR study areas to price cap regulation under the terms proposed above will promote efficiency, encourage network investment and competition, and reduce its average switched access rates. Because the pricing and USF waiver relief requested will make it possible for Consolidated to complete its conversion, this relief, and any other waiver relief the Commission may deem necessary, should be granted in order to generate the resulting substantial public benefits.

Respectfully submitted,

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Its Attorneys

Dated: December 4, 2007

ATTACHMENT A

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of

Consolidated Petition for Conversion to Price
Cap Regulation and for Limited Waiver Relief

WC Docket No. 07- _____

DECLARATION OF MICHAEL SHULTZ

I, Michael Shultz, hereby declare the following:

1. I am Vice President, Regulatory and Public Policy for Consolidated Communications Holdings, Inc. ("Consolidated"). I am responsible for establishing regulatory policy, and assuring Consolidated's compliance with applicable federal and state regulatory rules including costing and tariffs. I am familiar with the Federal Communications Commission's ("FCC's") *CALLS Order*, the FCC's *MAG Order*, the work of the Rural Task Force, rate-of-return ("ROR") regulation as it applies to Consolidated, and price cap regulation as it applies to Consolidated.¹

2. I have worked in the telecommunications business since 1985. I have worked for Consolidated (or its predecessors) from 2002 to present.

3. In support of the above captioned Petition, I describe characteristics of Consolidated's business organization, its operating and rural characteristics, its switched and special

¹ *Access Charge Reform; Price Cap Performance Review for Local Exchange Carriers*, Sixth Report and Order, 15 FCC Rcd 12962 (2000) ("*CALLS Order*"), aff'd in part, rev'd in part and remanded in part, *Texas Office of Public Util. Counsel v. FCC*, 265 F.3d 313 (5th Cir. 2001), on remand, 18 FCC Rcd 14976 (2003); see *Multi-Association Group (MAG) Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers*, Second Report and Order and Further Notice of Proposed Rulemaking, 16 FCC Rcd 19613 (2001) ("*MAG Order*") (subsequent history omitted).

access rates, and the universal service support, including Interstate Common Line Support ("ICLS"), that it receives.

Business Organization:

4. Consolidated is a holding company, headquartered in Mattoon, Illinois, that currently has three incumbent LEC subsidiaries. Consolidated has two operating subsidiaries in Texas, Consolidated Communications of Texas Company and Consolidated Communications of Fort Bend Company. Consolidated has one operating subsidiary in Illinois, Illinois Consolidated Telephone Company. Consolidated also has been recently authorized by the Federal Communications Commission, subject to obtaining necessary state regulatory approval, to acquire control of North Pittsburgh Telephone Company, a Pennsylvania-based ILEC that is regulated as an average schedule company.

Operating and Rural Characteristics:

5. As described below, Consolidated operates in one study area in Illinois, two in Texas, and will have one in Pennsylvania at year end 2007 or 1st quarter 2008. Like ILECs everywhere in the United States, Consolidated has been serving declining numbers of access lines. Its line count has declined by 36,084 lines, or 13.6%, from a high of 265,091 at year end 2002, to 229,007 as of June 30, 2007. It will have about 278,000 total access lines post acquisition of North Pittsburgh Telephone Company. All of Consolidated's study areas and access lines are subject to ROR regulation. Three of these study areas are subject to the "cost" form of ROR regulation, and the North Pittsburgh Telephone Company area to be acquired is subject to the "average schedule" form of ROR regulation.

6. Illinois Consolidated Telephone Company serves a single study area in Illinois consisting of 35 geographically contiguous exchanges serving predominantly small towns and rural areas in an approximately 2,681 square mile area primarily in five central Illinois counties:

Coles; Christian; Montgomery; Effingham; and Shelby. Consolidated is the incumbent provider of basic telephone services within these exchanges, with approximately 67,799 local exchange access lines, or approximately 25 lines per square mile, as of December 31, 2006. Approximately 62% of Illinois Consolidated's local access lines serve residential customers, and the remainder serve business customers. Illinois Consolidated's business customers are predominantly small retail, commercial, light manufacturing and service industry accounts, as well as universities and hospitals.

7. Consolidated's two operating subsidiaries in Texas, Consolidated Communications of Texas Company and Consolidated Communications of Fort Bend Company, each serve a single study area. Together they cover three principal geographic markets: Lufkin, Conroe, and Katy, Texas, consisting in total of 21 exchanges covering approximately 2,054 square miles, and serving approximately 149,506 local exchange access lines, or approximately 73 lines per square mile, as of December 31, 2006. Approximately 69% of Consolidated's Texas local access lines serve residential customers. Its business customers are predominantly manufacturing and retail industries accounts, and its largest business customers are hospitals, local governments and school districts. The two Texas companies jointly file a single interstate access tariff, and therefore are referred to together as "Consolidated Texas" in this Petition. All three Consolidated study areas qualify as "rural telephone companies" under Section 3(37) of the Communications Act of 1934 (the "Act").

Access Rates and Comparison to CALLS Rate Targets:

8. *Switched Access:* Consolidated's actual ROR switched access charge cumulative reductions since 2002 have totaled \$4.3 million, an amount that by any plausible measure is far more than the reductions that would have been required under the *CALLS Order* for these study areas if they had been original participants in the CALLS plan. The *CALLS Order* required participating price cap carriers to make required reductions partially through reductions in carrier common line ("CCL") charges. Consolidated or its predecessors eliminated CCL charges in their ROR study areas in 2001 pursuant to the FCC's *MAG Order* for ROR carriers.

9. The *CALLS Order* also set an average traffic sensitive ("ATS") target rate of \$0.0095 per minute for primarily rural price cap carriers, i.e., those with an average of fewer than 19 access lines per square mile. Lower cost price cap carriers have an ATS target rate of \$0.0065 per minute. All price cap carriers subject to the \$0.0065 ATS target rate have teledensities exceeding 100 switched access lines per square mile, based on calculations from publicly available data.

10. Overall, Consolidated currently averages about 49 switched access lines per square mile companywide, which could further diminish based on industry trends. For the Consolidated ROR study areas that are the subject of the Petition, the current weighted average of the rates in those areas is equivalent to an ATS rate of about \$0.0175 per minute, based on an average switched rate per minute of \$0.00781, an average transport rate of \$0.00781, and an average flat-rated transport rate of \$0.00217. Consolidated's two Texas study areas currently have an ATS rate at or below the *CALLS Order* ATS target rate for non-rural price cap carriers of \$0.0065 in the *CALLS Order*.

11. In comparing Consolidated's ROR switched access rates to the *CALLS Order* ATS target rate of \$0.0065 per minute, our Illinois study area has an ATS rate significantly higher than \$0.0065 per minute while our two Texas study areas have lower ATS rates. In the Illinois study area with ATS rates higher than the target, Consolidated proposes to reduce those rates to the target rate of \$0.0065 per minute, while leaving lower ATS rates in the Texas study areas unchanged. Under this proposal, the weighted average ATS rate in the converted study areas would become \$0.006157, a 64.82 percent reduction from the current ROR switched access rates.

12. *Special Access:* Consolidated has already reduced its special access rates to levels comparable to or lower than those of most price cap carriers participating in CALLS. Consolidated's standard monthly ROR special access rates are now below the average standard monthly special access rates of CALLS participants, and this is after the CALLS participants' special access reductions over a period of four years pursuant to the *CALLS Order*. These rate comparisons are based on month-to-month DS1 and DS3 rates using one channel termination and 10 miles of transport. Consolidated's current ROR DS1 and DS3 weighted average composite rates are 26 percent and 28 percent lower, respectively, than what they would have been if Consolidated had participated in the CALLS Plan.

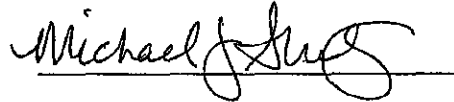
Universal Service:

13. As of year end 2006, Consolidated received less than 4% of its total annual revenue from high-cost loop and model support, and less than 10% of its total annual revenue from all Federal high-cost support combined.

14. Consolidated is requesting that it continue to receive ICLS as a price cap carrier, but calculated in the same manner as the interstate access support ("IAS") that it would have received in 2007 ("2007 Level") had it been a price cap carrier in 2007. Consolidated proposes to

receive no more than this 2007 Level IAS-like support on a per-line basis going forward. Set in this manner, Consolidated expects to receive less ICLS support going forward than it otherwise would if it had received all of the ICLS funding that would have been distributed to it as a ROR carrier.

I declare under penalty of perjury that the foregoing is true and correct.

A handwritten signature in dark ink, appearing to read "Michael Shultz", written over a horizontal line.

Michael Shultz

Executed: December 4, 2007